Chapter One

UNFAIR ADVANTAGE #1
KNOWLEDGE

What Should I Do with My Money?

FAQ (Frequently Asked Question)
I have $10,000. What should I do with it? What should I invest in?

Short Answer
If you do not know what to do with your money, the best thing to do is not tell anyone.

Explanation
If you do not know what to do with your money, there are many people who will tell you what to do, which is, "Turn your money over to me. I'll take care of it for you."

The biggest losers during the latest financial crisis were people who turned their money over to people they trusted.

Longer Answer
Your level of financial education determines what you do with your money and how you invest.

Explanation
Without financial education, your risks go up, your taxes go up, your returns go down. People without financial education traditionally invest in a home, stocks, bonds, mutual funds, and savings in a bank. These are the riskiest of all investments.

With financial education, your risks go down, returns go up, and taxes go down. In other words, you can make more money with less risk and pay less in taxes. The problem is that you cannot follow traditional financial advice or invest in traditional investments.

What This Book Is About: *With very high-quality financial education, money flows in rather than out.* You can pay zero in taxes and earn millions with very low risk by using other people's money in good or bad economies. This is an extreme unfair advantage.

Who Do You Call for Financial Advice?

In 2007, the world awoke to a new word: subprime. As the financial world began to shake, once-respected financial giants began to wobble. Some collapsed into a pile of rubble.

On September 15, 2008, the Lehman Brothers investment bank declared bankruptcy, the largest bankruptcy filing in U.S. history.

Also in 2008, Merrill Lynch, the largest stock brokerage firm in the United States, went bankrupt and sold itself to Bank of America. The irony is that Merrill Lynch was the firm millions trusted with their wealth, the firm millions looked to for financial advice.

In 2011, all is well at Merrill again. On their website, they promote contacting "a financial advisor to help you rebuild your assets today." Notice the word "rebuild." An intelligent question might be, "Why would anyone have to rebuild?" If you lost money, why would you give them more money?

AIG, Fannie Mae, and Freddie Mac are still in serious trouble. Even Warren Buffett, reportedly the world's richest and smartest investor, and his firm Berkshire Hathaway took substantial losses in the crisis. In fact, it was the Moody's ratings agency, an agency he controls, that issued AAA ratings to subprime mortgages and sold these toxic mortgages, aka derivatives, to governments, pension funds, and investors throughout the world. Selling subprime debt packaged as AAA prime debt is also known as fraud. Buffett's firm was instrumental in triggering this global crisis, yet the world still looks to Warren for fatherly investment advice. On top of that, the companies he controls (Wells Fargo, American Express, General Electric, and Goldman Sachs) received billions in taxpayer bailout money after the crash. Is this Warren Buffett's real secret to being the world's smartest investor?

Also during this crisis, millions of people lost their homes to foreclosures. Millions more are upside down, which means their homes are now worth less than their mortgages.

In 2010, Boston College released a report stating that Americans are $6.6 trillion short in their retirement funds. Their study claims that losses in retirement accounts and home values will leave Americans short of money for retirement. If they cannot afford to retire, what will they do when they can no longer work? Push a shopping cart and live under a bridge? What happens if their health fails? Who takes care of them?

Milliman, Inc., a Seattle-based consulting firm, reported that defined-benefit pension plans of the 100 largest corporations lost $108 billion in August 2010. That is a huge loss in just one month. This means Americans who felt safe because they worked for a company that had a DB plan, a defined-benefit pension plan are in trouble. They might not receive that guaranteed paycheck for life.

Most workers in the United States have a DC plan, a defined-contribution benefit plan, such as the 401(k). A DC plan means that their retirement depends upon how much is contributed to the pension plan. If there is nothing in their plan, they receive nothing. If the plan runs out or is wiped out, again they receive nothing. If the stock market is down, workers with DC plans are in very big trouble. Rather than retirement being a dream, retirement might turn into a nightmare.

CalPERS, the California Public Employee's Retirement System, is an agency of California's government and manages pension and health benefits for more than 1.6 million public employees, retirees, and their families. In other words, there are a lot of people counting on CalPERS for their financial security.

Unfortunately, it has a reputation as the one public pension that lost more money than all the others combined. Some people say it is the most corrupt and inefficient public pension fund in the United States.

In 2010, Stanford University published a warning stating that CalPERs and CalSTRS, the University of California Retirement System, are collectively unfunded by $500 billion dollars and have engaged in overly risky investments.

Half a trillion dollars is quite a shortfall. There goes the myth of obtaining job and retirement security by working for the government.

The Smartest People in the World

You get my point. Unless you have been living under a rock since 2007, I believe you know the story: the story of how the smartest financial brains in the world, the people we look to for financial wisdom, the men and women who went to the best schools in the world, supposedly receiving the best financial education in the world, caused the biggest financial crisis in world history, a crisis some have called the New Depression.

The question that arises is this: If they're so smart, if the leaders of our financial institutions received the best financial education money could buy, why is the world in such a financial crisis? Why are the rich getting richer, the poor getting poorer, and the middle class shrinking? Why are taxes going up and governments going broke? What happened to the jobs? Why are wages going down as inflation goes up? Why are so many baby boomers, people who followed the advice of the best-educated brains in the investment world, now afraid of running out of money during retirement? Why are so many young people, graduating from school under massive debt, unable to find jobs, jobs that can pay off their student loans? The coming crisis will not be the real estate bankruptcies. The next debt crisis will be defaults on student loans.

Could the problem be the poor quality of our leaders' financial education and the lack of financial education of the masses?

What Is Financial Education?

Today, millions of people are finally saying, "We need financial education in our schools." Yet if the brightest minds in the world got the best financial education money can buy, why are we in a massive financial crisis?

A better question is: What is financial education? If schoolteachers do not know what financial education is, how can they teach it? How did the graduates of our best schools—Harvard, Yale, Princeton, Oxford, and Cambridge—guide us into the world's biggest financial crisis? Why is the University of California teacher's retirement plan in trouble? Did those who manage that retirement plan really receive a financial education? Are kids in schools receiving a financial education? Are schools preparing students for the real world of money?

Before describing what I believe financial education is, I need to point out the differences between *education* and *training.*

In 1969, I entered U.S. Navy flight school at Pensacola, Florida. After three years of flight school, I was flying in Vietnam. Looking back upon the experience, I now realize that I was a *well-trained* pilot. I was not a *well-educated* pilot.

I say that I was well trained because I was trained to fly the helicopter gunship. I had no education as to why we were at war in Vietnam. I did not have any geo-political-economic education. I did not know that Vietnam had been at war for over a thousand years. France and the United States were the last in a long line of imperialist countries trying to conquer Vietnam. I did not know that the war I was fighting was their thousand-year war of Independence, as the Revolutionary War was America's fight for independence from England.

All we were told was that we were the good guys and the communists were the bad guys. I did not know what a communist was. All I knew was that we wore white hats and they wore black pajamas. We believed in God and communists did not. I did not know we were fighting for oil and control over the resources of Vietnam and the rest of Southeast Asia. Sadly, I see the same thing going on in Iraq and Afghanistan today.

Also, I had no idea how to design, build, or repair a helicopter. I was not educated in metallurgy, design, electronics, fuel, or weapons systems. I had no idea how to fix my helicopter. All I was trained to do was fly, shoot, and follow orders. Press the right button, and people died. Press the wrong button, and I died. By the end of the war, I was very *well-trained* pilot but not a *well-educated* one.

Potty Training

In the real world, people *toilet train* their children. They do not *toilet educate* their children. People train their dogs. They do not educate their dogs. The term "Pavlov's dog" has come to signify the difference between education and training. In simple terms, ring a bell and Pavlov's dogs salivated and got hungry, even if there was not any food around.

For those not familiar with the term "Pavlov's dog," the term is derived from the famed Russian physiologist and Nobel Laureate Ivan Pavlov (1849–1936), who was recognized for his research on the digestive system of dogs. He is credited with the term "conditioned reflex." Pavlov's dog is used to describe someone who merely reacts to a situation automatically instead of using critical thinking.

Modern advertising uses conditioned reflex extensively. Those of you from my generation may recall that Winston cigarettes had a tag line that went, "Winston tastes good ___ _ ______ ____." At home, we filled in the blanks, "Like a cigarette should." Or "How do you spell relief?" Our answer, "R-O-L-A-I-D-S." Advertisers trained us like Pavlov trained his dogs. Today, Aflac uses a duck to keep them on our minds; Geico insurance uses a green gecko to keep them on our minds. The financial-services industry does the same thing. People work hard for their money and, without thinking, turn their money over to banks and pension funds.

In many schools, school administrators are proud to say they have *financial education* in their schools. In reality, it is *financial training,* not financial education. Just as Pavlov trained his dogs to salivate even if there was nothing to salivate about, millions of highly educated people are *trained* rather than *educated* when it comes to the subject of money. For example, I will give you a test to see if you can fill in the blanks:

- **Go to school, get good grades, and get a _ _ _.**
- **Work _ _ _ _ .**
- **Save _ _ _ _ _.**
- **Buy a house because your house is an _ _ _ _ _.**
- **Cut up your credit cards. Get out of _ _ _ _.**
- **Live _ _ _ _ _ your means.**
- **Invest for the _ _ _ _ term in a well-_ _ _ _ _ _ _ _ _ _ _ _ _ portfolio of _ _ _ _ _, bonds, and _ _ _ _ _ _ funds.**

Many educated people think this is financial education. On television, it is common to see so-called financial experts saying, "Go to school. Get a job. Save money. Cut up your credit cards, and get out of debt. Your house is an asset. Live below your means. Invest for the long term in a well-diversified portfolio of stocks, bonds, and mutual funds." This is not financial education. This is financial training, the same training that Pavlov used on his dogs and that advertisers use to sell cigarettes, antacids, and insurance.

When the 2007 financial crisis hit, many of those who followed this financial training believed that they were financially educated and lost everything: jobs, homes, retirement, and savings. Many marriages broke apart.

To make matters worse, schools getting on the financial-education bandwagon continue to bring in bankers to promote the wisdom of "saving money." In the name of financial education, schools also bring in financial planners who train young minds to believe that "investing for the long term in a well-diversified portfolio of stocks, bonds, and mutual funds" is the smart thing to do. Mindlessly sending your money to complete strangers is not the end result of good financial education. It is the end result of dog training.

I am certain these educators are well-intentioned people, but their conditioned reflexes blind them to the fact that the bankers and financial planners they invite into their schools work for the very organizations that caused and profited from this financial crisis: corporations such as Bank of America, Merrill Lynch, Goldman Sachs, and Lehman Brothers (oops, they're gone). These companies continue to hire the brightest financially educated students from the best schools in the world and train them to run their companies and sell their financial services. This is not financial education. This is sales training.

Show Me the Money

In 1996, *Jerry McGuire,* a movie starring Renee Zellweger, Tom Cruise, and Cuba Gooding Jr. was released. From that movie came the line, "Show me the money," and today, it is a cult classic. Just a few days ago, I was passing a group of boys between the ages of 10 and 12 who were arguing about money. It seems that one boy owed money to another boy. Frustrated and tired of excuses, the boy who was owed the money stuck out his hand and shouted, "Just show me the money."

What most people think is financial education is really, "Send me your money," not "Show me the money." When a person says, "I have $10,000. What should I do with it?" financial planners, who have very little financial education but lots of sales training, are trained to say, "Invest for the long term in a well-diversified portfolio of stocks, bonds, and mutual funds." In other words, "Send me your money for the long term." People who followed similar mantras are today's biggest losers. This is how Bernie Madoff got so many educated wealthy people to send him billions of dollars, creating the second biggest Ponzi scheme in U.S. history. (The biggest Ponzi scheme in U.S. history is Social Security.)

The term "Ponzi scheme" is named after Charles Ponzi (1882–1949) who was considered one of the greatest swindlers of all time. A Ponzi scheme is an investment fraud where early investors are paid with money coming in from new investors who are generally lured in with the promise of high returns. If you think about it, most markets, real estate, stocks, bonds, and mutual funds are Ponzi schemes. If new investors stop sending in their money in the hopes of higher returns, the scheme collapses.

In 2007, as the news of the subprime crisis spread, old investors and new investors panicked and wanted their money back. Savers also wanted their money back, and the world economy, a massive Ponzi scheme, nearly collapsed. When people stopped sending in their money and began demanding, "Show me my money," the global markets crashed. Millions of ordinary people lost trillions.

To save the world economy, central banks and governments of the world were forced to step in and promise savers and investors that their money was safe. The problem is that millions are still wiped out and millions more do not trust the government and financial systems. They shouldn't. The entire global financial system is a government-sponsored Ponzi scheme. It works as long as you and I keep sending our money to people we hope are trustworthy. Imagine what would happen if young American workers said, "We will not donate any more to Social Security." Not only would the U.S. economy go into chaos but the world economy would probably collapse.

The global Ponzi scheme works for those with financial education and is tragic for those without financial education. This is why I write and teach financial education. The legal, government-sanctioned Ponzi scheme works for me, which is why I do not have a job, save money, call my house an asset, get out of debt, live below my means, or invest for the long term in a diversified portfolio of stocks, bonds, and mutual funds. Unfortunately, the global financial system is corrupt, and millions who follow this advice are being destroyed financially.

The Five Components of Financial Education

To keep financial education as simple as possible, I break it down into five basic components. They are:

1. History
2. Definitions
3. Taxes
4. Debt
5. Two sides to every coin

Throughout this book, I will often refer to these five basic components of financial education, doing my best to keep things as simple as possible.

Keeping It Simple

Growing up in Hawaii, far from the financial capitals of the world, my financial education began when I was nine years old. My rich dad, my best friend's father, began teaching his son and me about money using the game of *Monopoly.* He kept his lessons very simple.

During one of his lessons, he said, "One of the world's greatest financial strategies is found in the game of *Monopoly*."

Curious, his son and I asked, "What is the formula?"

Chuckling, he said, "Can't you see it? You've played this game for years. The formula is sitting right in front of you."

The problem is that we could not see it. No matter how many times we went around "GO" and collected our $200, we were blind to what rich dad saw.

Finally rich dad said. "One of the great formulas of the rich is: Four green houses turn into one red hotel."

Later that day, he drove his son and me out to see his real *green houses.* He had about five acres of them. "One day," he said, "I will have my big red hotel." Taking a moment to gather his thoughts, he said, "There are many different formulas. This is the formula I will follow for the rest of my life. I do not have an education. I did not go to school like you boys. Although not formally educated, I will dedicate my life to learning to have this formula work for me."

He kept his word. Rather than go to traditional schools, rich dad often flew from our little town of Hilo, Hawaii, to Honolulu, the capital, on another island, to attend business, sales, and investment courses. His goal was not to get a college degree so he could get a job. He did not want a job. His goal was to get an education that would fuel his plan to great wealth.

Ten years later when I was 19 years old, I returned home from school in New York for Christmas break. For our New Year's celebration, rich dad's son and I had a roaring party in the penthouse of rich dad's real red hotel on the beach at Waikiki. After midnight, when the party was over, I stood on the balcony of his penthouse staring at Waikiki Beach in front of me, realizing rich dad had played *Monopoly* in real life. He had followed his plan. In ten years, I witnessed him going from poor to very rich. By the end of his life, he had five red hotels on different islands and many other properties, businesses, and assets.

Today, when back in Hawaii, I often drive by buildings his family still owns and continues to collect income from, even though rich dad is no longer with us. Even after death, he remained a rich man.

As some of you know, hanging onto your wealth can be as hard as achieving wealth. That is why, before he became wealthy, rich dad also took courses in Honolulu on taxes, probate, and asset protection. When I asked him why, he said, "It does not make sense to work hard and have someone or the government take your money from you. If you are not smart, the government will take most of your hard-earned money after you die. Your stockbroker won't return your money after it's lost in a market crash. If you are not smart, an accident or illness can wipe you out. If you are not smart, a lawsuit can take most of your hard-earned money. Before you make your money, you need to learn how to protect it."

Rich dad never finished high school, yet he never stopped his education.

After Kim and I were married, while we were building our business and our investments, we allocated three to four times a year for business or investment education. The good thing about building a business and working on our investments was that we could apply what we learned immediately. Together, we took classes on advertising, gold, options trading, writing sales letters, foreign-exchange trading, creative financing, foreclosures, and asset protection. Like rich dad, this is how Kim and I gained and continue to increase our financial knowledge. In other words, rich dad did not teach me any specific subject. Instead, he taught me how to learn and what to learn. Today, like rich dad, we study hard so we can play *Monopoly* in real life.

The Value of Financial Education

Kim and I were married in 1986. Like many newly married couples, we did not have much money or credit. Adding to our financial challenges, I was still carrying nearly a million dollars in debt, money owed investors from the crash of my first entrepreneurial venture, the nylon-and-Velcro surfer wallet business.

On October 19, 1987, the Dow Jones Industrial Average fell 508 points, a 22 percent drop.

In 1988, George Herbert Walker Bush was elected president of the United States. That year, the savings-and-loan industry crashed, followed by a real estate market crash. Much like the subprime crisis, the destruction spread across the United States and the world. Millions of people lost their jobs and their homes, and the economy headed into a severe recession.

In 1989, as pessimism spread, I said to Kim, "Now is the time to start investing."

Being newly married, deeply in debt, without traditional jobs, and in the process of building a business, it seemed impossible to find someone who would lend us money to invest. To make matters worse, interest rates for investors were running between 9 percent and 14 percent. We were turned down many, many times. Bankers did not understand why we wanted to be investors in one of the worst economies in decades. Most bankers did not like our explanation that we were playing *Monopoly* in real life.

In spite of the rejection, Kim kept studying, taking classes, reading books, and looking at hundreds of properties. Her goal was to buy two houses per year for ten years, for a total of 20 houses. At first the process was slow, but once she caught on, she achieved her goal of 20 houses in just 18 months. Although she achieved her goal eight years ahead of time, she did not stop investing. She was excited. She was learning more and more with each deal, especially the ones that did not go her way. The more she learned, the more she realized how little she knew. Her desire to learn more drove her on.

By 1994, Kim and I were financially free. We sold our business, and reinvested our gains. We owned over sixty investment properties, each of which sent us a check every month. She was 37, and I was 47.

We were still not rich. All we had was $10,000 a month coming in and $3,000 in expenses going out. Although not rich, we were financially free. As best we could tell, we had cash flow for life.

Pressure Test the Plan

In 1994, we retired early because we wanted to pressure test our retirement plan. We wanted to make sure it could survive in good times and bad times. If our plan did not work, we were still young enough to correct and rebuild our investment base.

Early Retirement Ends

Two years later, bored and tired of retirement, Kim and I got back to work and produced *CASHFLOW,* our financial education game. The game is designed to be a seminar in a box and to teach the financial lessons my rich dad taught me. Like my rich dad, the game does not give you answers. The game challenges you to think. Every time you play the game, the game is different, because the players and challenges are different. The game also comes in three levels: the fundamental version, *CASHFLOW 101;* the advanced version, *CASHFLOW 202;* and *CASHFLOW for Kids,* a version for children 12 and under.

In 2004, the *New York Times* did nearly a full-page article on the game, stating that there were CASHFLOW clubs all over the world with people teaching people the lessons my rich dad taught me. Today, the game is in published in 15 languages. It is also played worldwide via the online versions of the game.

In 1997, *Rich Dad Poor Dad* was published. In the book, I repeated rich dad's lesson, "Your house is not an asset." Howls of protest went up, especially from real estate agents. In 2007, as real estate crashed, millions of people are discovering the value of rich dad's lesson.

In 2000, Oprah called. I appeared on her show and became "an overnight success;" that is, in one night I became famous, but it took me forty years of struggle to truly become successful.

After Oprah, money poured in from books and game sales from all over the world, but our money formula stayed the same. It was the same "pressure tested" formula that worked in good times and bad, when we had very little money and when we had a lot of money.

In 2002, *Rich Dad's Prophecy* was published. *Prophecy* predicted the biggest stock-market crash in history was coming. The prediction was heresy because the world was in a boom, the biggest bubble in history, a bubble that, as the book predicts, would wipe out the retirement plans of millions of people. Today, that prophecy is coming true.

Rich Dad's Prophecy attracted the attention of Wall Street, and I came under serious attack. I was discredited in the press through *Money* magazine, *Smart Money*, the *Wall Street Journal*, radio, television, and the World Wide Web. I understand. I am a businessman. Wall Street had to protect their cash cow.

In the introduction of *Rich Dad's Prophecy*, I stated, "[Y]ou may have until 2010 to become prepared." In spite of the warning, millions kept betting on the stock market and used their homes as ATMs (automatic teller machines), withdrawing money as the price of real estate went up. The book was actually written in 2001, yet my prediction for 2010 was pretty much on the money. I could not have made this prediction if I had not invested so much time on my financial education.

In 2006, at the height of the real estate boom, I was offered a real estate project for $260 million. The package was made up of five championship golf courses and a major 400-room luxury resort in Phoenix, Arizona, where we live. I did not buy the project. When I turned the project down, the seller said to me, "You'll be sorry. In ten years, this package will be worth over $400 million."

"I hope you're correct, but the project does not make sense to me." With that, I shut my brief case and left the room.

In 2006, I appeared on many programs, including a news segment with KTLA in Los Angeles, warning people that the market was about to collapse.

In 2006, Donald Trump and I published *Why We Want You to Be Rich*. The book was about the crash that was imminent and why the middle class would be wiped out. We began writing the book in late 2004. Our position was that poverty was about to increase. Millions in the middle class would move down the economic ladder. Given the choice between being rich or poor, we think being rich is better, hence the title of the book. Donald and I want you to be rich.

As you know, the market began to crash in 2007.

In 2008, with Wolf Blitzer sitting in for Larry, I went on CNN's *Larry King Live* and predicted Lehman Brothers would go down.

In 2008, *Conspiracy of the Rich* was released. It was initially launched free as an online book. Writing *Conspiracy* was a trip because the book was being written as the world financial markets were crashing. The book is about the "Federal Reserve Bank," which is not part of the federal government, has no reserves, and is not a bank. The Federal Reserve Bank was founded in 1913 and is the cause of the present financial crisis. *Conspiracy* also explained why this crisis is not just a financial crisis, why it is not an accident, and why it is not a new crisis. It has been brewing for years.

On September 15, 2008, as I predicted on CNN, Lehman Brothers filed for bankruptcy protection, the largest bankruptcy in U.S. history.

In 2009, the same 400-room luxury resort and five golf courses were again offered to us. This time Kim and I bought the package. Rather than pay $260 million, we paid $46 million, using pension-fund money to buy the property. The seller who wanted $260 million was bankrupt. The crash of 2007 made him poorer but was making us even richer. As stated in *Rich Dad's Prophecy,* "[Y]ou may have until 2010 to become prepared." Kim and I were prepared as deals began to float to the surface.

By 2010, a little over 20 years after starting her financial education in 1989, Kim personally had nearly 3,000 rental units. Her income per month is more than most people earn in years.

I continue to focus primarily on businesses, commercial buildings, oil wells, and my gold and silver mines. The mines were purchased in 1997 and 1999 for very little money because gold and silver prices were very low. We got great prices for those mines. After the mines were developed and proven to have large reserves of gold and silver, they were taken public through IPOs (initial public offerings) through the Toronto stock exchange, as prices of gold and silver climbed.

We also drilled for oil when oil prices were really low. Today, good economy or bad economy, people keep using oil, so we were not hurt in the crash. Most of Kim's apartment units are in areas that produce oil, Oklahoma and Texas. As long as people use oil, people have jobs, and her apartments stay full. With their rent money, she buys more apartment houses.

Combined, Kim and I do very well and grow wealthier, even in a bad economy. On top of that, we earn more and pay even less in taxes, often paying zero taxes legally. This is the power of true financial education and the reason for this book. As Donald Trump and I stated in our book, "The middle class is disappearing. Given the choice between being rich or poor, we want you to be rich." That is why financial education is important.

It's Not Cool

As I shared at the beginning of this book, I thought long and hard about sharing with you our financial success, especially during this financial crisis. I know that millions of people have lost their jobs, their homes, and their businesses. I also know that it is not polite to talk about financial success in any situation. Bragging is never cool, especially about money.

Yet I decided to write about real-life investments. I want you to understand how we gained our financial education, how we use our education, and why it is an unfair advantage, especially in a declining economy. I write not to brag. I write to encourage people to learn, study, practice, and possibly see the world differently. There is a lot of money in the world. There are trillions of dollars looking for a home because governments of the world are printing trillions in counterfeit money, aka fiat currency. Governments do not want the world to go into a depression so they print more funny money. This is why the price of gold and silver go up and why savers are losers.

The problem is this phony money is in the hands of only a few people so the rich get richer, the poor and middle class grow poorer, the economy worsens, and the problem grows bigger.

In September 2010, poverty in America increased to nearly 15 percent of the population. This means that in less than a year, over 4 million people moved from the middle class into poverty, just as Donald Trump and I predicted. This is dangerous. This is not healthy.

At the risk of sounding like I was bragging, I decided to write this book about real-life investments. I believe it is uncool to know something and not share what I know. That would be greedy. I write because I believe we need real financial education before the world economy can truly recover. Ultimately, I write because I believe it is better to teach people to fish than to give people fish.

Poverty Sucks

Kim and I know what it feels like to be down and out, without money. Anybody who says, "I'm not interested in money," is a moron. I can say from experience, "Poverty sucks." In 1985, Kim and I were homeless for a short period, living in friends' basements or spare rooms as we built our business. We moved many times. Kim should have left me, yet she pushed on, testing our commitment to achieving a better life together. I know she did not marry me for my money because I did not have any money. Once we began to have success with the process my rich dad taught me, we never stopped. Although the start was painful, the ups and downs of the educational process changed our lives into who we are today. Today we know: "Money does not make us rich. Knowledge does." This is the power of real-life financial education and why knowledge is an unfair advantage.

What Is Unfair?

Since the stock-market crash of 1987, the world's economy has gone through two major boom-and-bust cycles. Each boom and each bust made Kim and me stronger financially. In 1990 the economy was similar to 2010. Bad economies are great times to become rich. In 1990, during a very bad recession, Kim and I began our process of going from poor to rich.

The process has not changed. The only thing that changed is the number of zeros. Kim purchased her first investment property in Portland, Oregon, for $45,000. Again, I remind you, we had zero credit and most banks turned us down since we were self-employed and did not have steady jobs. To make matters worse, I had nearly a million dollars in debt dragging behind me. Interest rates were 9 percent to 14 percent for investors. On top of this, we had zero extra cash since all our extra cash was going into growing our international education company. I taught Kim what I knew about creative financing, and magically she came up with $5,000 to purchase the house (by having the seller help us find the credit for the mortgage). After acquiring the property, she earned $25 a month after all expenses, including the mortgage payment. In 1989, she was on her way. She was not rich, but her financial education had begun. It was no longer intellectual theory. It was real life.

Twenty years later, she and I purchased the $46 million resort with five golf courses, but Kim did most of the work. Again, the process is the same. She did not have the money, but she knew how to raise the money. The only change in the process is the number of zeros: $45,000 vs. $46,000,000. What increased was her financial education. Her real-life financial education was a long-term process of classes, seminars, study, reading, successes, failures, good times, bad times, crooks, con men, liars, cheats, mentors, bad partners, and great partners. As her knowledge increased, her confidence increased, risk went down, and the size of her investments increased. This is her unfair advantage today, and why she is qualified to write her book, *Rich Woman,* to encourage other women to take control of their financial future by gaining real-life financial education.

Why Were We Not Wiped Out?

FAQ
Millions of investors lost everything starting in 2007. How did you gain and not lose?

Short Answer
Financial education gave us the ability to not follow conventional financial wisdom.

FAQ
What did you know that others did not know? Why did you win even as the economy was crashing?

Very Short Answer
We kept playing *Monopoly*.

Explanation
There are three priceless lessons in *Monopoly.* They are:

1. **Four green houses, one red hotel**
   The lesson is: *Start small. Dream big*. We both took classes and did small deals on weekends. We had a rule: We had to look at 100 properties before we bought one. With every deal we looked at, especially the bad ones, we got smarter. As you may know, most investments are bad investments, so you need to invest time looking for those rare great deals.

   It doesn't have to be real estate investing. It could be stocks, or a business. The lesson is that most people, especially men, jump into a market, create a big splash, and try to make a killing. Usually, they are the ones who are killed.

   Give yourself at least five to ten years to learn and gain from experience. If you like real estate, start with real estate. If you like stocks, start with stocks. If you are interested in business, start in business. Know that you will make mistakes, so make small mistakes, learn, and keep dreaming big.

2. **One house-$10, Two houses-$20, Three houses-$30**
   The lesson is: *cash flow.* More houses—more cash flow.
   Red hotel—extreme cash flow.

   In the world of money and financial education, *cash flow is the single most important word.* Cash is always flowing. It is either flowing in, or it is flowing out. For most people, they work hard and the cash flows out. True financial education trains you to have cash flowing in.

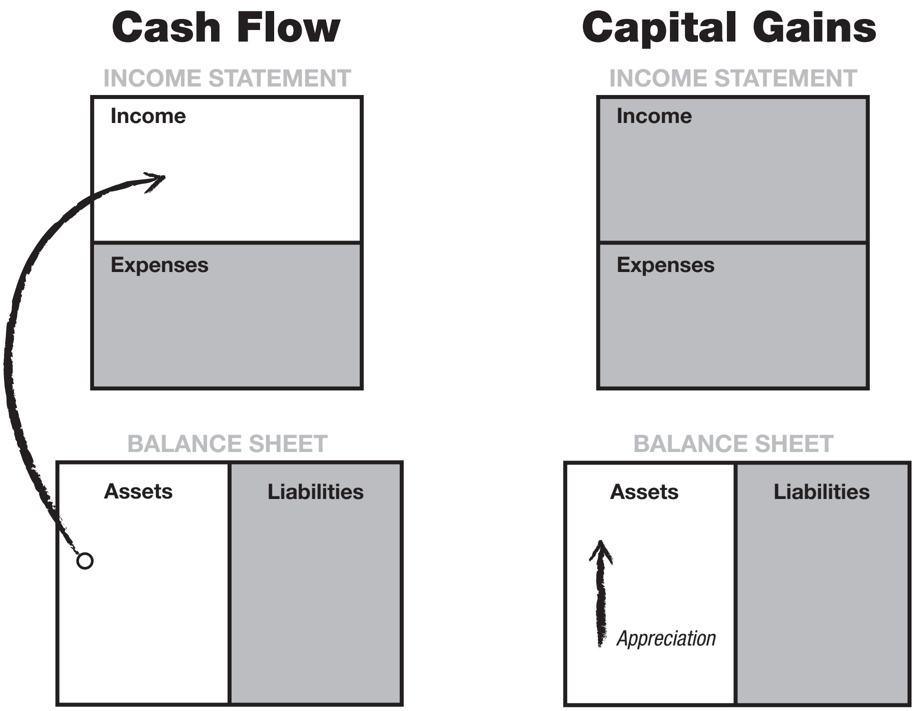
   Financially educated investors must know the difference between cash flow and capital gains.

   Most uneducated investors invest for capital gains. That is why amateurs say such things as:

   - "The value of my house went up."
   - "The price of my stock went up so I sold it."
   - "Do you think investing in the emerging markets is smart?"
   - "I'm investing in gold because the price is going up."
   - "You should rebalance your portfolio."
   - "My net worth has increased."
   - "I invest in antique cars because they increase in value."

   Simply put, the people who lost during this financial crisis were people who invest primarily for capital gains. Most of them bet on the price of something going up. When the market crashed, their wealth crashed, and for many, their net worth went negative.

To make things very simple, the diagrams below illustrate the differences between cash flow and capital gains.



When Kim and I buy a property, we invest primarily for cash flow, diagram #1. We want to see the financial statement. Whether it is a 2-bedroom rental house for $45,000 or a 400-room luxury resort with five golf courses for $46,000,000, investing for cash flow means we must have cash flowing in. When the economy crashed with over 3,000 rental units and commercial properties, cash flow kept pouring in, even as the economy dried up.

Cash kept flowing in because we make sure there are solid jobs in the area before buying anything. Always remember that real estate is only as valuable as the jobs. We did not invest in high-end residential properties. With our partner Ken McElroy, we invested primarily in "workforce housing" properties in areas that need a strong, steady work force.

This is why we have properties in Texas and Oklahoma because oil requires workers. Even in the crash, people still need a roof over their head, and the world kept burning oil. We also invest in workforce housing in college towns because college towns have steady employment.

In real estate, it was the "flippers" who got crushed. Flippers were investing for *capital gains,* diagram #2. They were counting on the property bubble to keep prices rising.

Then they would sell the property to a bigger sucker and make a killing. When the property bubble crashed, the flipper was the sucker.

I'm going to repeat the lesson now because it is worth repeating. In the game of *Monopoly,* the lesson is *cash flow.* Whether it is a green house or a red hotel, cash flows in, which is how you win the game in *Monopoly* and in real life.

Unfortunately, due to a lack of financial education, I estimate that 90 percent of amateur investors invest for capital gains, hoping prices of stocks or real estate or gold and silver go up. That is gambling, but that is what most financial experts recommend that you do. This is why financial planners tell their investors, "On average, the stock market goes up 8 percent per year." Or real estate agents often say, "Your house will go up in value." They focus on capital gains, and not cash flow. You have to be very smart to invest for cash flow.

Fin Ed Tip

Financial education requires a person to understand the definition of words such as *cash flow* and *capital gains.*

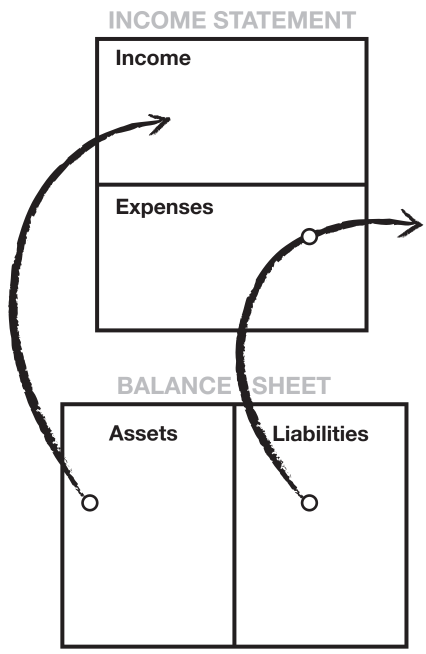
In *Rich Dad Poor Dad,* I wrote about *assets* versus *liabilities.* Simply put, assets put money in your pocket (cash flowing in), and liabilities take money from your pocket (cash flowing out). For most people, even if their home has no debt, cash flows out through real estate taxes, repairs, and insurance. The same is true with cars and anything else that sucks cash from your pockets.

On the flip side, most of the properties Kim and I purchase produce income after all expenses and debt. Knowing the difference between cash flow and capital gains gave us an unfair advantage. The reason we look at so many properties is because finding properties that provide cash flow can be daunting. The good news is that finding properties that provide cash flow in a crash is easier, because prices are lower.

The biggest losers during this financial crisis were people who invested in liabilities, hoping for capital gains. When the markets crashed, their cash flowed out.

Average investors invest for capital gains. Capital-gains investors are not really investors. They are traders, buying with the intent of selling for a higher price (or a lower price, in the case of shorting a market). True investors invest for both capital gains and cash flow. True investors also invest for tax breaks, using as much OPM (other people's money) as possible. Knowing how to do this is an unfair advantage.

Below is a diagram showing the differences between *assets* and *liabilities.*



Cash flow is not a goal only in real estate. When I invest in oil, I invest for cash flow. I do not care if the price of oil goes up or down as long as the cash keeps flowing in. Many people invest in stocks for dividends, which is another name for cash flow. Bondholders and savers invest for interest, another name for cash flow. From my books and inventions, I receive royalties, another form of cash flow. Different words—dividends, interest, royalties—yet they all mean the same thing: cash flow.

Unfortunately, after this last crash, dividends and interest from bonds and savings accounts went down. This hurt many retirees counting on that cash flow.

As a kid I learned this priceless lesson from playing *Monopoly:* the lesson of cash flow.

Take a look at the diagram on the preceding page again. Each green house must put money in my pocket, aka cash flow. I never forgot the lesson, and that is why Kim and I did not lose during the 1987 or 2007 financial crashes.

Again, the reason so many millions of people lost trillions is because they invested for capital gains, chart #2. A person who invests for capital gains is gambling, always worried about the ups and downs of the market. That is why so many investors believe investing is risky. Anything is risky when you have no control.

In Sunday school I was taught: “My people perish from a lack of knowledge.” (Hosea 4:6)

Today millions of people are perishing financially due to lack of financial education. Millions would not have lost if they simply knew the difference between cash flow and capital gains, a priceless lesson from the game of *Monopoly.*

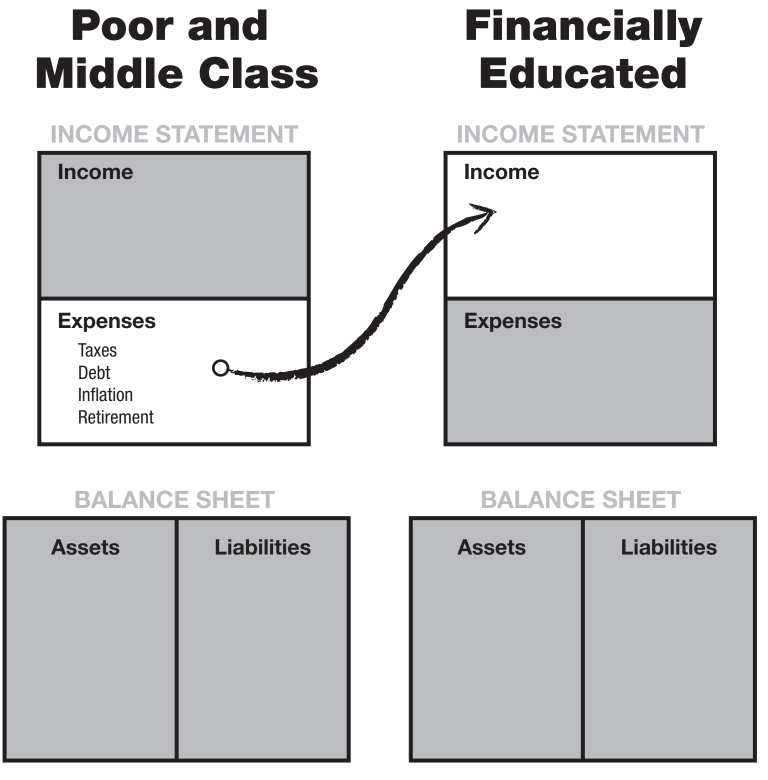
3. **Send me your money**
   Monopoly taught me to have people send me their money. When you look at a property deed with one green house on the property and the rent for that green house is $10, the person who lands on

that property must send $10 to the player who has the deed to that property. Learning how to have people send you money, as crude as it sounds, is true financial education.

Fin Ed Tip

The financial education taught in schools teaches kids to send their money to the government, retail banks, and investment banks. True financial education teaches you how to have people send money to you.

When the child becomes an adult, this is what their financial statement looks like:



Without financial education, people mindlessly send their money to the government via taxes; to the bank via debt on their house, car, credit cards, and school loans; and to oil companies, power companies, and food producers via inflation. And for those who have a retirement account, they send their money to retail and investment bankers. This is why the rich get richer, the poor stay poor, and the middle class works harder.

Fin Ed Tip

There are two sides to every coin. From the game of *Monopoly,* I learned to be on the receiving end, the other side of the coin. Most people are on the sending side of the coin, and without education, every month their cash flows to those with the most financial education. If you want to be on the receiving side of the coin, your financial education is essential.

At nine years old, I understood the importance of one green house producing $10 of income, positive cash flow. I understood that the rich have people send them their money. Knowing that, I wanted to increase my financial education. The game of *Monopoly* taught me to be one of the persons people send their money to. This is true financial education and why Kim and I did not lose when the markets crashed. We invest in investments that require people to send us money, good economy or bad.

After the market crashed and prices came down, it was the money borrowed from retirement plans that financed our resort and golf course. Banks loaned us millions to buy more apartment houses because they know it is our tenants that pay for the loans. After the crash, consumers still use oil whether the price of oil is up or down. When inflation hits and prices go up, we will still make more money. And as central banks began printing trillions of dollars, the price of gold and silver went up, and we made even more money.

I know this will sound crude, greedy, and vulgar to most people, especially socialists, but the reason I am a lifelong student of financial education is because I want to learn to have people send me their money. Having people sending me money is smarter than being trained like Pavlov's dogs to send more of my hard-earned money to the rich and the government.

As vulgar as learning how to have people send me their money may sound, the truth is that most people only work if the person they work for sends them their money. Even poor people and retirees must wait for the government to send them their money. In other words, the world works only if people send other people money. It's called cash flow. The more important question is whether you want to learn how to have more and more cash flowing in and less and less flowing out. If you do, that requires real financial education.

Kim is a master when it comes to cash flow. She also challenges herself to go beyond what's comfortable for her and has the discipline to achieve the goals she sets and the goals we set as a couple.

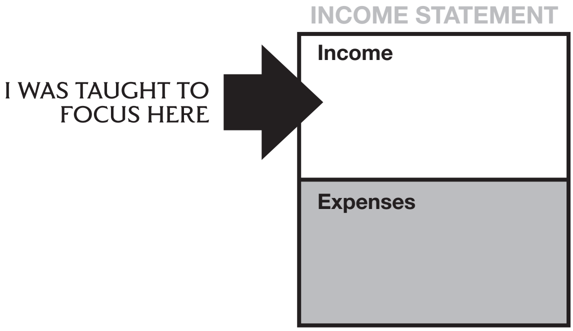
Kim's Commentary

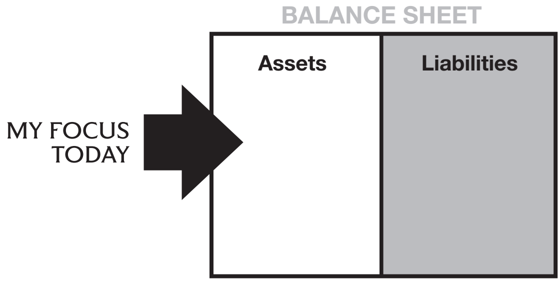
My earth-shattering realization came when I realized I had been taught and programmed all my life to focus on the wrong thing when it came to money.

Like probably many of you, I was always told to get a good job, work my way up in the company, and get pay raises along the way. When I was on an hourly pay scale, I was encouraged to work more hours or increase my hourly rate to make more money. This focus of acquiring an ever-increasing salary or income was drummed into me since my first job.

My mind-set shifted when I realized that, in order to become financially independent and free, I needed to focus on acquiring assets, not income. Why? Because focusing on income means I have to keep working harder and harder to make more and more money and maybe one day I'll have enough money so that I no longer have to work. Shifting my focus to acquiring assets takes the attention off me working forever for money and puts it on my money working forever to make money. This made all the difference.

Every year, Robert and I get together to set our goals. We have our business goals, fitness goals, fun goals, and our asset goals. We want to be sure that each year we add more assets to our asset column. The assets may be businesses, real estate, paper assets, or commodities.

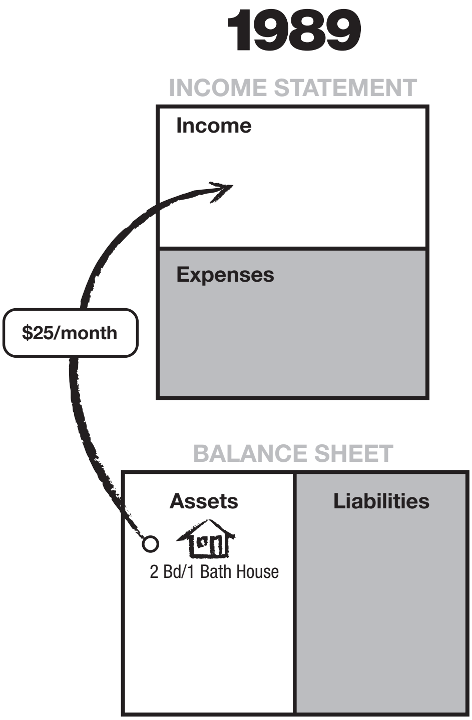




I first started investing in 1989. Fearful and unsure of what I was doing, I stumbled around neighborhoods near our home and finally found a cute 2-bedroom, 1-bath house that seemed to be a good rental prospect. I nervously put in an offer, and with a little back-and-forth negotiation, my offer was accepted. Now more fear kicked in. I was more focused on what I might lose versus what I would get. I looked for every excuse possible for why I shouldn't buy that house. I somehow quieted my fear long enough to go ahead and buy the property, taking very deep breaths along the way.

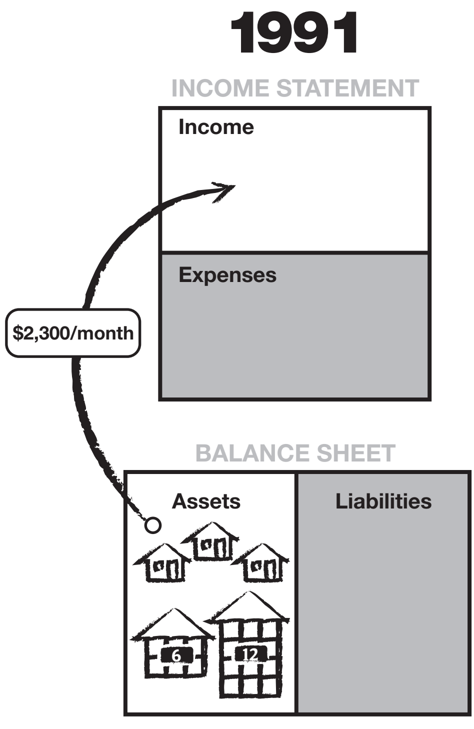
When all was said and done, I had my very first rental property and a tenant, and once I collected the rent and paid the expenses and the mortgage, I had a massive positive cash flow of $25 per month!

In 1989, after purchasing my small, but charming, rental house, my asset column looked like this:



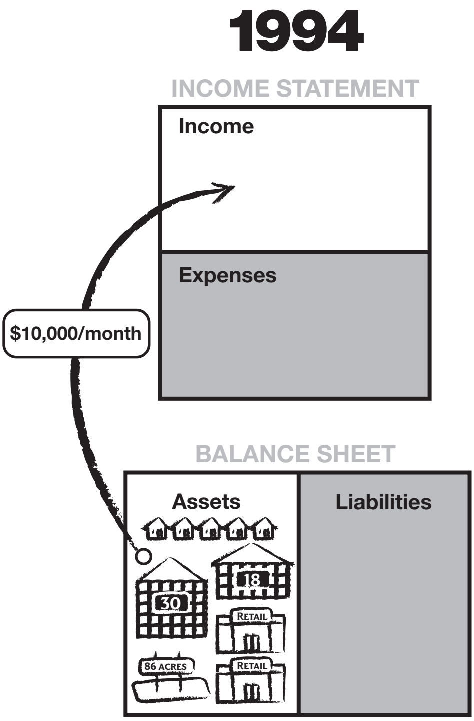
That same year we set our first asset goal. Our goal was to acquire 20 rental units in ten years, or two rentals per year. This was our first smaller goal on the way to our main goal of being financially free. The power of setting the goal is that it is specific and we are crystal-clear on what we want. Setting the goal puts us in motion toward achieving it. The reality is that, once we started toward that goal, my knowledge about real estate investing increased dramatically because I loved it and I was excited about it. I was even more excited about the cash flow that these properties would generate. The fact is that, instead of taking 10 years to reach our goal, we had our 20, actually 21, rental units in 18 months!

Now our asset column looked like this:



Accomplishing that goal put us much closer to our main goal of being financially free by having the cash flow from our assets greater than our living expenses. This was now our next asset goal: to have more cash flow coming in to us from our assets than was going out in living expenses. It took us three more years to reach that goal.

Here is a snapshot of our asset column in 1994:



Financial freedom to Robert and me was not amassing millions of dollars in savings on which to live. It was simply to have the cash flow coming in every month from our investments, whether we worked or not. Our cash flow in 1994 was $10,000 per month. This was not mega-dollars, but our expenses at the time were only $3,000 per month. At that point, we were free. Our cash flow from our assets more than paid for our monthly expenses. It was at that moment that we had the luxury to ask ourselves, "What is it we really want to do with our lives?" Being able to ask that question, more than having the money, is true freedom.

As a couple, what is our unfair advantage? First, we set our financial goals together. Second, we study and we learn together in order to achieve the goals we've set. We attend seminars, read books, meet with real experts, and work with coaches so that we get what we want in life.

My very first gift from Robert when we were first dating was not a nice piece of jewelry or my favorite perfume. No, my first present was a seminar on accounting! I guess he wanted to be sure I knew my assets from my liabilities. When I left college, I vowed I would never step foot inside another classroom again. I was so done with school. But what I discovered when I took this accounting class, in which we played a game for two days, was that I loved learning! I just didn't like what or how the school system taught. So this first gift was much more than an accounting class. It renewed my passion for learning.

There is a lot of information in the world on any subject, especially money, so we are constantly seeking out the most relevant information we can find. At every workshop we attend, I know I will glean at least one new idea that I can apply. We work with coaches, be it a fitness coach, business coach, or investment coach, because sometimes we need that kick in the butt to keep us moving forward.

That is what I see as our unfair advantage. And it's something that anyone can do. It's not rocket science. There is no special sauce. It is, I must say, one of the keys to keeping our relationship new, ever-growing, and fun. And as a couple, it allows us to have what we truly want in our lives.

So every year around New Year's Day, Robert and I set, along with other important goals, our asset goals. The purpose of the goal is to continue to add assets to that all-important column on our financial statements.

Today our asset column is filled with assets from all four of the main asset classes: businesses, real estate, paper assets, and commodities. We've created many businesses that generate cash flow. Our real estate ranges from apartment houses to commercial properties to resorts and golf courses. We have some paper assets in our asset column, and commodities take up a good deal of space in the form of silver, gold, *oil, and gas. When the traditional financial advisor recommends you diversify, he or she is usually advising you to diversify within one asset class: paper assets. Robert and I diversify, but not within one asset class. We diversify throughout all four asset classes.*

It's my experience that what you focus on expands. Setting an asset goal every year and focusing on achieving that goal has definitely expanded our asset column, and yes, it has brought us cash flow. Even more importantly, it has given us freedom.

In Summary

As Kim explained, the true purpose of education is to give a person the power to take information and process it into knowledge.

If a person has no financial education, they cannot process information. They do not know the difference between an asset or a liability, capital gains or cash flow, fundamental investing or technical investing, why the rich pay less in taxes, or why debt makes some people rich and most people poor. They do not know a good investment from a bad investment, or good advice from bad advice. All they know is to go to school, work hard, pay taxes, live below your means, buy a house, get out of debt, and die poor.

As the Bible states, "My people perish from a lack of knowledge." Today, millions are perishing because all they have been *trained* to do is send their money to the rich and to the government. That is not education.

Final Question

FAQ
So what should I invest my money in?

Answer
We all have three choices:

1. Do nothing and *hope* things work out. But as my rich dad said, "Hope is for the hopeless."
2. Turn your money over to an expert for the long term, and "Buy, hold, and pray."
3. Invest in your financial education. Invest your time before you invest your money. That's something you have already done by reading this far. To me, this is the smart thing to do.